

SOVIET - AMERICAN AID COMPETITION
IN INDIA, 1953-1960

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CHAPTER I

INTRODUCTION

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reference will be made to underdeveloped countries in general from time to time. However, India will remain the focal point of this study.

The problem considered in this study is by no means being overestimated. It is a study of the economic and political aspects of the Indian economy and its relation to the world economy. This is the first study of its kind to contain a study of the topics which are included herein. Furthermore, these will be the first conclusions and suggestions based on these topics as a whole. The writer fully recognizes

the immediate purpose of this study. The writer believes that a study can be so limited that it is not CHAPTER I

INTRODUCTION

Since the end of the Korean War in 1953, Soviet - American competition has shifted from the military sphere to the development of the underdeveloped countries. It was the purpose of this study to compare the American aid program in one of these countries, India, with the Soviet aid program, and to make suggestions on how economic and political cooperation between the United States and India can be made more effective in assisting India's economic development, and stopping the expansion of communism. Since Soviet - American aid competition has not been confined to India, reference will be made to underdeveloped countries in general from time to time. However, India will remain the focal point of this study.

The problem contained in this study is by no means being investigated for the first time, nor can the writer take complete credit for all of the opinions or conclusions contained herein. However, to the writer's knowledge, this is the first study to take this form or to contain all of the topics which will be developed herein. Furthermore, these will be the first conclusions and suggestions based on these topics as a whole. The writer fully recognizes

the immensity of this study, but believes that a study can be so limited that conclusions based upon it have little value. On the other hand, this writer knows that some studies become so broad that conclusions based upon them lose their specificity and, thus, their value. With this in mind, this examination will be developed to a degree that conclusions based upon it will be of value, but not to an intensity that the purpose of the inquiry is lost in collateral problems.

Since World War II the world has become polarized into two spheres of influence, the Soviet and the American. In recent years, yet another influence has come into world affairs, that of the "uncommitted nations." India, the largest democracy in the world, has become the main spokesman for that group. Thus, India has become of increasing significance to both Russia and the United States, as the struggle for power between those two nations continues. It was because of India's increasing significance that it was chosen as the focus of this study.

In the development of this study emphasis will be placed first on the problems of India's economy, and how this democracy is attempting to alleviate them. An attempt will be made to reconcile the magnitude of the problem with the attention given to it. This will be especially true in describing India's population problems. Emphasis will then

be placed on assistance to the Indian economy by the United States, by the Soviets, and on suggestions and conclusions pertinent to the purpose of this study.

In the study which follows, both statistical and chronological methods of procedure have been utilized. The statistical method has been employed, not for complete accuracy, but for the purpose of making a meaningful comparison of magnitudes in Soviet - American aid competition. The chronological procedure has been utilized as a convenient means of presenting the historical development of the United States aid program.

The primary sources for this study were The New York Times, and the United States Department of State Bulletin. The New York Times was utilized because of its excellent reputation as an impartial observer, because it is a factual source, because of its ready availability at the Drake University Library, and because of its very complete index. The Department of State Bulletin was utilized because it was the best available source for government documents pertaining to this study. In addition, a few secondary sources of information, mostly books and periodicals, proved helpful in various parts of this study.

CHAPTER II

MAJOR PROBLEMS AFFECTING THE INDIAN ECONOMY:

A BRIEF SURVEY

India is one of the poorest nations in the world. The annual per capita income of India was estimated at only \$68 in 1959, while the average calorie consumption was only two-thirds that recommended by the United Nations Food and Agricultural Organization.¹ If India is to raise its standard of living it is imperative that this democracy produce more food and control its rising population. These are the two paramount problems affecting the India economy.

I. POPULATION PROBLEMS

On March 31, 1959, India's population was estimated at 415 million.² At the current rate of increase of 1.3 per cent per year India's population will be approximately 750 million in forty years.

Oddly enough this rapid increase in population is not due to a rising birth rate. In fact, the birth rate has declined from 46.4 per thousand in the 1921-1931 period to

¹The New York Times, January 5, 1959, p. 45.

²Ibid., December 19, 1959, p. 7.

43.2 in the 1941-1951 period.¹ At the same time the death rate has decreased from 36.3 per thousand in the 1921-1931 period to 31.0 in the 1941-1951 period. Thus the difference between the birth rate and the death rate, which determines the increase or decrease in population, has been expanding because the death rate has fallen more quickly than the birth rate.

In comparing such significant factors as density of population and the annual rate of population increase in India with other countries, it can be concluded that neither is the source of her population problems. For example, India's annual rate of increase in population for the period 1953-1957 was 1.3 as compared with 1.8 in the United States, 3.6 in China, and 2.8 in Canada.² The density of population in India is 120 people per square kilometer. The corresponding figure in the United States is 22, in China it is 264, and in Japan 246. The source of India's population problem is the maldistribution of her many millions of people. On March 13, 1960, The New York Times reported India's annual population increase had risen to 7 million.³

The Indian Government, in an effort to curb the rising population, has adopted an official policy of family planning. Pursuant to that policy India now observes a "National Family

¹The United Nations, The Future Growth of the World Population (New York: United Nations Information Agency, 1958), p. 28.

²United Nations, United Nations Statistical Yearbook for 1958 (New York: The United Nations, 1958), p. 179.

³The New York Times, March 13, VI, p. 19.

Planning Day" to dramatize the need for effective birth control to help raise the standard of living.¹ Also, India plans to spend \$10,500,000 on the promotion of family planning during its Second Five Year Plan ending in 1961. During this period the Indian Government will establish five hundred clinics in urban areas, and two thousand in rural areas in order to spread information on family planning.² It is planned that these clinics will serve approximately fifty thousand people each.

The Indian Government's policy of family planning which has been in existence for the past nine years has been a disappointment. It has gradually gained public support, but ignorance, superstition, rural traditions, and the lack of facilities and trained social workers have made the results negligible. Typical of the problems facing India in this field is the fact that, even if each of the family planning clinics handled the fifty thousand people it is supposed to, five out of six Indians would still have no facilities.

The depressing results in family planning have not changed Indian Government policy on the subject. In fact, it is now undertaking even more drastic steps to curb the ever-increasing population. For example, the Indian Family Planning Board has recommended that birth control be the predominant feature of the Third Five Year Plan, beginning in April,

¹The New York Times, December 19, 1959, p. 7.

²Ibid., January 12, 1960, p. 70.

1961.¹ Also, the Indian Government has decided that the problem is so big that no tangible results can be obtained by propaganda and canvassing, or even by large scale free distribution of contraceptives. Therefore, it now seems that the next government policy in regard to this policy will be voluntary sterilization. At the present the Indian Government is allowing federal employees six working days off for sterilization operations, and is providing sterilization facilities at state owned hospitals for volunteers.² On March 7, 1960, The New York Times correspondent in New Delhi wrote that there is a good possibility that government legislation on sterilization will be forthcoming in the near future.³

II. THE PROBLEM OF CASTE

Castes may have a religious, tribal, or racial foundation; but the four traditional divisions are by occupation. The highest caste is the Brahmins who are the priests, scholars, and teachers. The next caste is the Kshatrijas which is the ruler-soldier class. Below the Kshatrijas are the Vaisyas who are the middle class farm owners, traders, businessmen, artisans, shopkeepers, and merchants. The

¹ Ibid., March 7, 1960, p. 9.

² Ibid., February 16, 1960, p. 1.

³ Ibid., March 7, 1960, p. 9.

lowest caste are the Sudras who are the working class. Those who have no caste are known as the untouchables. These people perform only menial tasks such as sweeping.¹ The division does not stop at the caste boundaries however, for each caste is subdivided many, many times. Thus India has been so stratified by the caste system that social and economic mobility, often considered so vital to the improvement of an economy, has been somewhat paralyzed.

Recognizing the handicaps of the caste system, the Indian Government has officially abolished it in the Indian Constitution. To provide a political status for the untouchables, which would have been impossible in the past, the Constitution provides that the percentage of the untouchables in the lowest house of the state legislatures must be at least equal to their percentage in India's total population.²

India's industrialization has caused the caste system to begin to disappear in the cities, but not in the villages. Although India now has laws providing fines and imprisonment for any practice of caste discrimination, it has been impossible to legislate it out of existence.

III. LANGUAGE PROBLEMS

While the caste system segments India socially, the

¹Eleanor Roosevelt, India and the Awakening East (New York: Harper and Brothers, 1953), p. 133.

²Robert Trumball, As I See India (New York: William Sloan Associates, 1956), p. 151.

language problem segments India in yet another way. The Indian Constitution recognizes fourteen major languages for official national or provincial use: English, Bengali, Punjabi, Urdu, Guzarati, Marathi, Assamese, Oriya, Telegu, Tamil, Malayam, Kanorese, and Hindustani.¹ Each of these languages has many dialects. In fact the 1951 Indian Census listed 720 languages and dialects.² Problems brought about by having so many languages are exemplified by the fact that Indian currency has "Rupee" written on it in nine different scripts.³ And yet even more tragic is the fact that as late as 1955, 82 per cent of the Indian population could neither read nor write any of these languages.⁴

The Indian Government has adopted Hindustani as the official language of its country, but English will remain in official use until 1965.

IV. WATER PROBLEMS

Lack of water is the dominant problem in increasing India's agricultural productivity. This problem is exemplified by the fact that India devotes 30 per cent of her annual budget to irrigation projects.

Basically, the problem is retaining the water.

¹Trumball, op. cit., p. 106.

²Ibid.

³Ibid.

⁴Jack Finegan, India Today (St. Louis: The Bethany Press, 1955), p. 113.

Ninety-five per cent of India's rainfall comes during the monsoons which last only two or three months. The heavy rainfall of the monsoons causes floods, and then leaves the soil parched for the rest of the year.¹ If India is to effectively utilize these monsoons, it is essential that she build dams, reservoirs, and extensive irrigation systems.

V. PROBLEMS OF INFLATION

Inflation is a perennial problem in India's economy. One reason for the inflation in India is extensive deficit spending by the Indian Government. Other inflationary pressures are generated from world-wide sources. By 1950 prices in India were 400 per cent above 1939 levels.² From 1956 to 1960 the world price of the capital equipment which India needs for the successful fulfillment of her Second Five Year Plan had raised 25 per cent.³

VI. RELIGION AND THE INDIAN ECONOMY

Religion in India has caused a split in the country, a tendency towards apathy by the population, and an additional burden upon the food supply.

Religion was the factor behind the India - Pakistan

¹ Chester Bowles, Ambassador's Report (New York: Harper and Brothers, 1954), p. 161.

² The New York Times, January 4, 1950, p. 76.

³ Ibid., March 22, 1960, p. 7.

split in 1947. The separation into separate countries, which were formerly one, had dire effects upon the economies of each, because of mutual dependence on the other's products.

India's three main religions are Hinduism, Jainism, and Buddhism. In each of these religions the idea of "Karma" is prevalent. According to this doctrine, deeds of previous existences determine one's present status.¹ Such a belief causes the Indian people to have an apathetic attitude toward their own existence, and seems to minimize the ambition necessary for self improvement.

In India, the cow and the monkey are sacred to many people. Thus their economy is faced with an additional burden in feeding these animals, while the proportion of the food left for the general populace is decreased.

VII. FOREIGN EXCHANGE PROBLEMS

India has had trouble in keeping her foreign exchange at a high enough level to buy necessary capital equipment for her Second Five Year Plan. India's First Five Year Plan concentrated on developing means of producing more food. By 1956 foreign exchange drainage had stopped as India reported self sufficiency in supplying her food needs.² The Second

¹Finegan, op. cit., p. 116.

²The New York Times, January 4, 1956, p. 49.

Five Year Plan produced another problem in foreign exchange, because it emphasized industrial development. It was impossible for India to keep her exports high enough to match her imports, and soon her foreign security holdings dropped below the upper minimum prescribed by the Reserve Bank of India Act, August 14, 1957.¹

Since the above date the problem of foreign exchange, although still existing, has been minimized by the fact that countries aiding India have shown an increased willingness to accept Indian currency.

VIII. INDIA - PAKISTAN RELATIONS

By the Partition of India Act of 1947 India was divided into two countries, India and Pakistan. The 562 princely states of India were given the right to accede to either Pakistan or India with the idea that the predominantly Moslem states would accede to Pakistan, and the Hindu ones to India. During this time six million Moslems fled from India to Pakistan and five million Hindus and Sikhs fled from Pakistan to India.²

Since this partition India and Pakistan have been in constant conflict. In 1947, a dispute arose over possession of the State of Kashmir, and a war between these two nations

¹Ibid., August 14, 1957, p. 35.

²Trumball, op. cit., p. 46.

broke out. The United Nations was successful in gaining a cease fire in Kashmir, but no real solution has been found for this problem.

Another conflict between these two countries has been over rights to the Indus River Basin. This river, so important for irrigation purposes, flows first through India and then into Pakistan. Both countries have claimed dominant rights to this river and have thus been in constant conflict.

By 1960, relations between India and Pakistan had reached an all time high, with the peaceful settlement of a long standing border dispute. The International Bank for Reconstruction and Development is now undertaking the development of the Indus River Basin, which promises to produce satisfactory results for both countries. Another reason for the rapprochement between India and Pakistan is China's menacing gestures on the Indian border. Some leading government officials of both India and Pakistan are even advocating a defense alliance between these two nations.¹

The long struggle with Pakistan has produced a tremendous burden on the Indian economy. The dislocation of many people, the Kashmir War, and religious conflicts have all taken their toll. India, where the per capita income has just reached \$68 per year, has found it necessary to devote

¹The New York Times, November 14, 1959, p. 6.

approximately 30 per cent of her annual budget to military purposes ever since its independence.¹

IX. INDIA - CHINA RELATIONS

Until recently India's relations with Red China had been quite amicable. Having two thousand miles of common border, these two countries have had many years of good relations. Since Red China took power on the mainland, India has constantly advocated that she be given the seat in the United Nations now occupied by the Taiwan Government. In 1954, India and China signed the "Five Principles of Peaceful Coexistence."

These peaceful relations abruptly changed in the summer of 1959, when Red China occupied areas claimed by India. China claimed that the McMahon Line of 1914, which separates India and Tibet, did not bind her because she was not a party to the agreement. India, on the other hand, claims that the lands belong to her by tradition. The dispute involves fifty thousand square miles of territory of which Red China now occupies twelve thousand square miles.

Although the area involved is quite large, it is of little importance to India. The terrain is very rugged and only a few Indian shepherds live there. What is at stake is India's prestige. Thus India has increased her budget sixty

¹Ibid., February 28, 1954, p. 9.

million dollars for the fiscal year beginning April, 1960. Defense spending now amounts to \$571,766,000 or 30 per cent of the total budget.¹

¹The New York Times, March 1, 1960, p. 8.

CHAPTER III

INDIA'S EFFORTS TO DEVELOP HER ECONOMY

India has not idly waited for assistance to raise her standard of living. In fact India has undertaken two ambitious five year development programs. The first was for the years 1951 to 1956 and the second for 1956 to 1961. Although all of India's goals have not been reached by these plans, there has been some very encouraging progress.

I. INDIA'S FIRST FIVE YEAR PLAN

As the information contained in Table I, page 17, indicates, emphasis of the First Five Year Plan was on increasing food production by means of improving irrigation, power and transportation, farm technology, and community development.

The results of India's First Five Year Plan were encouraging. In her first attempt at planned development India was able to reach 87 per cent of her goal. During this five year period India became self sufficient in food, and foreign exchange drainage for food buying was stopped.¹ The

¹Much of India's success in increasing her food production in its First Five Year Plan was due to a series of favorable monsoons throughout the five years of that plan. Unfortunately, the monsoons have not been as favorable during India's Second Five Year Plan and the problem of food shortages has reappeared. See Infra., p. 9.

TABLE I
PLANNED EXPENDITURES FOR INDIA'S
FIRST FIVE YEAR PLAN*

Agriculture and Community Development	\$ 727
Transport and Communications	994
Industry	346
Irrigation and Power	1,129
Social Services	668
Rehabilitation	170
Miscellaneous	104
(in millions)	<u>\$4,138</u>

*Data obtained from The New York Times, December 9, 1952, p. 16.

community development program resulted in the reclamation of 895,000 acres, irrigation of 1,500,000 additional acres, establishment of 12,000 new schools, establishment of 30,000 adult education centers, and 28,000 miles of new roads. Malaria dropped from an incidence of 60 per cent to 2 per cent.¹

The Indian industry also showed progress. At the end of the plan in April of 1956, industrial production had increased 22 per cent.² The Industrial Index showed 97.2 in 1947, 146.5 in 1954, and 157.9 in 1955.³ The most significant and

¹International Cooperation Administration, International Cooperation Administration Country Progress: India (Washington: Government Printing Office, 1956), p. 22.

²Ibid., p. 32.

³The New York Times, January 4, 1956, p. 49.

meaningful statistic, however, was in national income, which rose 18 per cent during the period of the First Five Year Plan.¹

II. INDIA'S SECOND FIVE YEAR PLAN

On April 1, 1956, India started on her second five year period of planned economic development. The Second Five Year Plan has emphasized the industrial segment of India's economy, while maintaining her work in community development at a high level. Encouraged by the success of the First Five Year Plan, India's new plan called for expenditures of nearly four times as much, \$15,120,000,000 as compared to \$4,138,000,000 for the first plan.² A national income increase of 25 per cent was sought as compared to 18 per cent for the first plan.³

It was evident from the start that India's Second Five Year Plan was overly optimistic. For example, the Indian Government planned on \$1,680,000,000 in aid from abroad although none of that sum had yet been committed to them. It called for private investment of \$5,040,000,000 for which there was no assurance, and 20 per cent of the plan was to be financed by deficit spending. By August of 1957, India's economy was strained internally by inflation and externally by

¹ Ibid., July 22, 1956, p. 9.

² Ibid., May 16, 1956, p. 2.

³ Ibid., July 22, 1956, p. 9.

balance of payments difficulties, and it was necessary to cut the program to the core projects. Many projects which had already been started had to be abandoned, greatly adding to the waste of the plan.

The key reasons for the failure of the Second Five Year Plan at the time it was cut to the core were: (1) India did not get the aid she expected, (2) inflation caused the goals to be unreasonably high for the funds that were available, (3) the original estimates of costs were much too low, and (4) the food problem reoccurred after a year of poor monsoons.¹

The results of India's economic planning, although discouraging in parts, has been successful over-all. Under these plans agricultural production has increased about 30 per cent, while industrial production has increased 50 per cent. The Gross National Product has been growing at about 4 per cent annually, while the population increases at about 2 per cent. Thus the annual increase in national income is about 2 per cent.²

¹Ibid., September 29, 1957, IV, p. 9.

²United States Department of State, Bulletin No. 42 (Washington: Government Printing Office, May 16, 1960), p. 780.

has the same purpose as economic assistance, but is in an
 CHAPTER IV
 form: teaching others to help themselves.

THE ADMINISTRATION, MOTIVES, AND NATURE OF UNITED STATES AID

Following the Second World War the United States
 began giving aid to war torn countries through the United
 Nations Relief and Rehabilitation Organization, and the
 Marshall Plan. When Europe had regained its economic
 strength, the United States began to give aid to another
 group of countries, the underdeveloped countries. In his
 inaugural speech of 1949, President Truman set the trend
 for this type of aid when he said, "Only by helping the
 least fortunate of its members can the human family achieve
 a decent, satisfying life that is the right of all people."¹

This was the famous "Point Four."

United States' foreign aid has been of three differ-
 ent kinds: military, economic, and technical. The military
 assistance has been given in the form of weapons and money
 with the purpose being to combat the spread of communism.

Economic assistance may be in the form of supplies, but is
 usually money. It is given to help increase the standard of
 living in underdeveloped countries. Technical assistance

¹ Eugene Staley, The Future of Underdeveloped Countries (New York: Harper and Brothers, 1954), p. 52.

² The New York Times is the source for this section.

has the same purpose as economic assistance, but is in an educational form; teaching others to help themselves.

I. ADMINISTRATION OF UNITED STATES AID:

A BRIEF REVIEW¹

The United States first began giving aid to other nations following World War II through the United Nations Relief and Rehabilitation Administration. As an active participant in this program the United States contributed 75 per cent of the total sum expended by that organization.

Under the Truman Doctrine of 1947, the United States began to give active military assistance to countries threatened by communism. Largely through this plan, Greece and Turkey were able to withstand the Communist threats to their nations.

The Marshall Plan was also started in 1947. To administer this program the Economic Cooperation Administration was created in 1948. Through the efforts of the Marshall Plan the countries of Europe were able to reach their pre-war economic strength.

In 1949, the United States helped to organize the North Atlantic Treaty Organization. Pursuant to the responsibilities of being a member of that organization, the United States Congress passed the Mutual Defense Assistance Act to

¹The New York Times is the source for this section.

help the North Atlantic Treaty Organization (NATO) countries and Greece, Turkey, Iran, Korea, China, and the Philippines to build their military power.

In President Truman's inauguration address of 1949 his fourth point of United States foreign policy stressed the need of the United States to share its wealth with the underdeveloped countries through technical cooperation. Soon to become known as the "Point Four Program," Congress gave the idea formal authorization in the Act for International Development of 1950. This Act authorized the United States to participate in and to establish international technical cooperation programs. This was the first action by the United States to assist nations outside of Europe, or which did not need immediate assistance to deter communism.

In 1951, the United States Congress passed the Mutual Security Act, which authorized continuation of foreign aid, and also established the Mutual Security Agency to take over the functions of the Economic Cooperation Administration. The emphasis of the Mutual Security Program was on security. Operation of the military program was to be handled by the Department of Defense, while the economic and technical assistance was to be administered by the State Department. The United States now began to assist India in her development program. In 1952, the United States authorized

\$50,000,000 for the establishment of the India - American Technical Cooperation Fund. India contributed an equal sum to the fund and also joined in its administration. This fund, which was used primarily for the study of food production, was the first concrete step in a continued program of Indian - American aid relations.

The Mutual Defense Assistance Act of 1951 further emphasized United States security. This act provided that all military, economic, and technical assistance would be terminated if the recipient country permitted trade of certain strategic materials to the Soviet Bloc.

In 1952, the Mutual Security Act was amended. The amendment authorized continuation of the foreign aid program, but at a reduced amount.

The Mutual Security Act was once again amended in 1953 with the result that once again the United States foreign aid program was reduced. Activities of the Mutual Security Agency, and other aid programs, were to be combined under a new agency, the Foreign Operations Administration.

In 1954, the Mutual Security Act was amended once more. The United States foreign aid program was once again reduced in amount. The amendment also provided for the abolishment of the Foreign Operations Administration in June of 1955. The military program of assistance was to be administered again by the Department of Defense, while other

assistance programs were to be administered by the Department of State.

In 1954, the United States Congress passed the Agricultural Trade Development and Assistance Act (Public Law 480). Under this Act, United States agricultural surpluses were to be sold abroad for foreign currencies. The proceeds were then loaned back to the recipient country to finance economic development within their country. This law was to prove to be of great assistance in improving Indian - American aid relations. The Department of State established the International Cooperation Administration to administer the aid programs for which it was responsible. The Department of Defense continued to administer military aid.

In January of 1958 the Development Loan Fund was established under the Mutual Security Act to make loans to foreign countries payable in the recipient country's own currency. Its purpose was to aid such underdeveloped countries as India in concentrating on long range, economic growth projects.

The latest move by the United States is an attempt to spread the responsibility of aid to underdeveloped nations to other advanced countries of the world. A step in this direction is the International Development Authority which was created in the later months of 1959. This new organization will operate in connection with the International

Bank for Reconstruction and Development, and will concentrate on loans which the World Bank might not grant because of an excessive risk being involved.

By 1960 the United States was contributing to the development of underdeveloped countries on an international basis through the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation, the Export - Import Bank, The Development Loan Fund, the International Development Authority, and several agencies on a regional basis.

II. MOTIVES BEHIND UNITED STATES AID

United States aid has been given to such underdeveloped countries as India for three reasons: (1) humanitarianism, (2) economic purposes, and (3) for purposes of security.

Humanitarianism. The motive of humanitarianism played a large role in the foreign aid policies of the United States until the Korean War. For example, the Act for International Development stated as the United States' motive:

The peoples of the United States and other nations have a common interest in the freedom and in the economies and the social progress of all peoples. Such progress can further the secure growth of democratic ways of life, the expansion of mutually beneficial commerce, the development of international understanding and good will, and the maintenance of world peace.¹

¹Staley, op. cit., p. 32.

It is doubtful that the humanitarian motive of United States aid can be considered important in explaining the actions of the United States in the past, or in the future. Unfortunately, aid programs are devised and promoted in an administrative and political setting that gives very little consideration to humanitarianism. The agencies which are responsible for the administration of these programs must annually justify them to a Congress which is concerned with economy.

Economic Motivation. Those who advocate aid for economic purposes stress the fact that such assistance makes more customers for United States' products and is also a source of new supplies. As the productivity of the underdeveloped countries increases, so will their ability to supply the United States with raw materials. As their standard of living increases, so will the markets for United States' products in foreign countries.

No matter how good the economic arguments of foreign aid may be, there is little evidence of economic motivation behind United States aid. For example, where the United States gives the most aid is not where they do the most trading. Also, foreign trade has not been of great significance in the development of the United States, nor is there much evidence that a curtailment of United States foreign trade would greatly affect the growth of the United States economy.

Security motives. Since the Korean War, the United States aid program has been dominated by security purposes, viz., the threat of communism. As Secretary of State Christian Herter said, "Our problem as far as security is concerned is communism."¹ The United States Department of State Bulletin illustrated the problem when it quoted Lenin as saying:

First we will take Eastern Europe, next the masses of Asia, and finally we will encircle the last bastion of capitalism - the United States. We shall not have to attack it, it will fall like an overripe fruit into our hands.²

The United States aid program is now almost entirely administered through the Mutual Security Act. The motives of that act are:

. . .to maintain the security and to promote the foreign policy of the United States by authorizing military, economic, and technical assistance to friendly nations to strengthen the mutual security and individual and collective defenses of the free world, to develop their resources in the interest of their security and independence, and the national interest of the United States to facilitate the effective participation of these countries in the United Nations system for collective defense. The purpose of . . . the Act for International Development. . . shall hereafter be deemed to include this purpose.³

By 1960 the United States maintained 250 major overseas bases and had military alliances with forty-two nations

¹United States Department of State, Bulletin No. 38 (Washington: Government Printing Office, May 5, 1955), p. 731.

²Ibid., p. 732.

³Staley, op. cit., p. 33.

of the free world.¹ Thus the stress on security continues.

III. THE NATURE OF UNITED STATES AID

The United States aid to underdeveloped countries is administered primarily through the Mutual Security Act. Under the provisions of that Act there are four categories of United States aid: (1) military assistance, (2) defense support, (3) development assistance, and (4) technical cooperation. Military assistance is self-explanatory. Defense support is economic aid supplied to certain countries not receiving significant military assistance in order to maintain economic and political stability in the recipient nation. Development assistance takes place primarily through the Development Loan Fund, which was explained in a previous section.² Technical cooperation involves the sharing of skills, knowledge, and techniques with underdeveloped countries at their request.

¹United States Department of State, Bulletin No. 38 (Washington: Government Printing Office, May 5, 1955), p. 733.

²Supra., p. 24.

CHAPTER V

UNITED STATES AID TO INDIA

India has continually refused any type of military assistance from the United States. Therefore, United States aid to that country has been in the form of economic assistance and technical assistance.

I. ECONOMIC ASSISTANCE

On May 7, 1960, the United States and India signed an agreement which provides for the sale to India of \$1,276,000,000 worth of wheat and rice over a four year period under the Agriculture Trade Development and Assistance Act of 1954.¹ Under this agreement, \$1,076,000,000 will be made available to India for economic development, one half as loans, and one half as grants. The other \$200,000,000 will be used for United States' expenses in administering the program. This is the fifth such Public Law 480 agreement between the United States and India, and the total amount involved in these agreements now stands at approximately \$2.5 billion.²

¹The amount involved is equivalent to one shipload of grain being sent to India every day for four years. United States Department of State, Bulletin No. 42 (Washington: Government Printing Office, May 30, 1960), p. 889.

²Ibid.

The aforementioned agreement is the most recent one in United States - Indian economic aid relations. It is by far the largest agreement between these two countries and shows a growing concern of the United States for Indian economic development, a concern which dates back to 1950 and the International Development Act. Since that time the United States has loaned or granted approximately \$3 billion to India.

TABLE II

UNITED STATES AID TO INDIA TO
AUGUST 31, 1959*

Outright Grants	\$490,300,000
Loans Payable in Dollars	341,600,000
Loans Payable in Rupees	728,800,000
Funds Reserved for Use of the United States	
Government	188,600,000
Private United States Agencies	43,400,000

*Data obtained from The New York Times, September 26, 1959, p. 3.

By July 27, 1959, United States loans to India totaled \$642,000,000 out of India's total foreign debt of \$1,369,200,000.¹ Of a total of \$685,000,000 of foreign assistance given to India during her First Five Year Plan, the United States contributed \$500,000,000.²

¹ The New York Times, July 27, 1959, p. 33.

² Ibid., March 7, 1956, p. 6.

How Indian - American economic aid agreements work.

Typical of the Public Law 480 agreements was the one signed August 30, 1956. The total amount involved in this agreement was \$360,100,000. Under this agreement the United States delivered \$305,900,000 worth of wheat, rice, cotton, and other items from the United States agricultural surpluses over a three year period. The amount of \$54,200,000 was then paid by the United States for freight charges. The amount used for economic development was \$234,000,000, and only on this sum did the Indian Government pay interest. An outright grant amounted to \$54,000,000. The remaining \$72,000,000 was spent by the United States in India for various purposes, such as building a new United States Embassy in New Delhi. The mechanics of the agreement were as follows: the United States sold the agricultural surpluses to the Indian Government who in turn sold the grain to its people. The proceeds from these local sales were then loaned by the United States to India, rather than being used to repay the United States at that time.¹

Typical of how straight loan agreements work, and how the agencies coordinate their programs, is the March 2, 1958, agreement between the United States and India. By this agreement, India was loaned \$150,000,000 by the Export - Import

¹Ibid., August 30, 1956, p. 1.

Bank, and \$75,000,000 by the Development Loan Fund of the International Cooperation Administration. The Export-Import Bank loan is to be repaid in fifteen years at an annual interest rate of $5\frac{1}{4}$ per cent. The \$75 million loan by the Development Loan Fund carries an interest rate varying from $3\frac{1}{2}$ per cent for state projects to $5\frac{1}{2}$ per cent for private projects. The length of time for repayment varies with the individual loan.¹

Trends of United States economic aid in India. The trend in recent years in United States economic aid relations with India has been characterized by the establishment of development agencies such as the Development Loan Fund, the creative use of United States' agricultural surpluses, and encouraging the expansion of the number of countries giving aid to such underdeveloped countries as India.

The trend in development agencies has been encouraging. For example, the Development Loan Fund already has applications far exceeding its capital, and the future calls for even more funds to be channeled through this agency. In 1959 the actual amount expended through the Development Loan Fund was \$66,000,000. In 1960 it will spend an estimated \$175,000,000; and in 1961 \$300,000,000.²

¹ Ibid., March 2, 1958, p. 26.

² United States Department of State, Bulletin No. 42 (Washington: Government Printing Office, February 8, 1960), p. 210.

The creative use of agricultural surpluses has also been encouraging. Through Public Law 480 the United States has utilized its surpluses to the great assistance of India. In fact over 50 per cent of United States aid to India has been in this form.¹

The expansion of aid to such underdeveloped countries as India among the countries of the free world has likewise been encouraging. The establishment of the International Development Authority, mentioned earlier, is noteworthy in this respect.² Up to May 16, 1960, free world sources of aid to India, other than the United States, amounted to \$1,300,000,000; while the Soviet Bloc total was \$773,000,000.³

II. TECHNICAL ASSISTANCE

Section 418 (a) of the Act for International Development of 1950 defines technical assistance as:

Programs for the international interchange of technical knowledge and skills to contribute to the balanced and integrated development of the economic resources and productive capacities of underdeveloped countries.⁴

There are three different ways to administer technical assistance. First, the United States may send technicians

¹Ibid., Bulletin No. 42, May 16, 1960, p. 780.

²Supra., p. 24. ³Bulletin No. 42, May 16, 1960, loc. cit.

⁴Porter Hardy, "A Congressman's View of Technical Cooperation," The Annals, CCCXXIII (May, 1959), 18.

⁵Ibid., March 5, 1958, p. 3.

abroad to teach citizens of another country more advanced technology. Secondly, the United States may bear the expense of having citizens of other countries come to the United States for technical training in colleges and universities. Thirdly, the United States may contribute to the support of special joint bureaus set up within the host government to carry out technical assistance programs. Basically, technical assistance is a program of education.

Technical aid has been of modest proportions in comparison to economic assistance. In 1959, United States technical assistance amounted to only 4 per cent of the Mutual Security Program.¹ United States technical assistance in India has also been of modest proportions. For example, the first technical assistance agreement signed with India called for an expenditure of only \$1,200,000 and the education of 150 Indian technicians in the United States.² By March of 1958, of the total aid to India from the United States, only \$57 million, or 5 per cent, was for technical assistance.³

Typical of the United States - Indian technical cooperation is the Indian community development program. Started in October of 1952, it consists of fifty-five projects for improving agricultural methods, employment, housing, health, education, and allied activities in 17,500 villages. The

¹ Ibid., p. 19.

² The New York Times, December 28, 1950, p. 8.

³ Ibid., March 5, 1958, p. 5.

primary aim of this project is to increase food production from 30 per cent to 50 per cent. The original project was at a cost of \$80 million of which the United States paid \$8,600,000. Private United States agencies also gave \$230,000 for the same project.¹

Considering the small amounts spent on technical aid to India, the results have been encouraging. Assisted also by the United Nations, India has been successful in such areas as reducing the incidence of malaria and decreasing infant fatalities.²

III. PRIVATE ASSISTANCE

A type of development assistance unused by the Soviet Bloc is private assistance. Although the role of such private groups as the Ford Foundation and the American Friends Service Committee has been small in comparison to United States Government assistance, their contributions to the development of India have been significant. For example, during the Indian famine of 1951 private United States sources sent \$750,000 in relief supplies to India.³

The private agencies have maintained their own planning in aiding India and have been successful in their own right.

¹Ibid., September 20, 1952, p. 22.

²The United States pays approximately 40 per cent of United Nations expenditures.

³Ibid., September 1952, p. 43.
 United States Department of State, Bulletin No. 47 (Washington: Government Printing Office, August 4, 1952), p. 182.

For example, in 1958 the Ford Foundation branched into another area of the Indian economy by granting \$2,200,000 to promote small industries. Also in 1958, the Foundation granted \$750,000 to India to help her plan more realistic future five year plans through the assistance of Massachusetts Institute of Technology experts.¹

IV. PRIVATE INVESTMENT

Where India had hoped for greatest success in financing her economic development, private investment, the results have been disappointing. The Reserve Bank of India reported in 1955 that the United States had furnished only 7 per cent of the capital investment in India.² By December of 1959, United States private investment in India amounted to only about \$120,000,000.³

There have been several problems in regard to increasing United States private investment in India. The basic problem is that India fears exploitation, while United States investors fear nationalization of their investments. At the present the investment opportunities in the United States so outweigh those in India that there is little likelihood of any substantial increase in investments in that country.

When United States private capital has been invested

¹The New York Times, August 18, 1958, p. 17.

²Ibid., September 12, 1955, p. 33.

³Ibid., December 8, 1959, p. 19.

in India in large sums, it has usually been accompanied by special agreements which serve to minimize the fears mentioned heretofore. For example, the Standard-Vacuum Company built three oil refineries in India from 1951 to 1954. The agreement between that company and the Indian Government called for no nationalization of these refineries for at least twenty-five years, and gave Standard-Vacuum concessions on such things as customs duties.¹

In the latter months of 1959 the Indian and United States governments took steps to encourage private investment in India. First, India agreed to give income from private investment a special tax exemption. Then these two countries signed a treaty whereby the money earned by United States investors as a result of the Indian tax exemption will be treated as tax free income in the United States.² The latest agreement by India and the United States guarantees an investor that if his business is expropriated or nationalized, he will be able to recover his loss in dollars. The United States will be the guarantor and will charge the investor a fee for the insurance.³

V. INDIAN - AMERICAN RELATIONS

The test of an aid program in which the emphasis is

¹ Ibid., December 1, 1951, p. 1.

² Ibid., November 11, 1959, p. 3.

³ Ibid., December 8, 1959, p. 19.

on security is how closely the recipient's security policies follow those of the donor. If such a test were applied to Indian - American economic aid relations, the United States program has been a failure. The fact that India has constantly stood against United States military alliances gives testimony to that fact. On the other hand, if all the United States expected in her aid program to India was to maintain the integrity of India's neutrality, the United States aid program has been a success.

One stern lesson which the United States has learned in India is that she can not "buy" India. The waxing and waning of friendly Indian - American relations has not coincided with the amount of aid which the United States has given to India, but has depended almost entirely on political events completely separated from aid.

India's neutrality has been based predominantly on two factors which have been hard to understand by Americans. One of these factors is geographical. As one author stated: "Imagine that Canada was Russia, that Mexico was Red China, and that we were India. Then, consider India's foreign policy."¹ The other factor is relative strength. In understanding this factor of the Indian position of neutrality one need remember just one thing: the United States has the power to resist force; India does not.

¹Thomas Morgan, Friends and Fellow Students (New York: Thomas Y. Crowell, 1956), p. 6.

Three places where India and the United States have disagreed are: (1) the attitude towards the expansion of communism, (2) the colonialism of European nations, and (3) Red China. India does not regard communism as the threat which the United States does. In colonial matters, India has resented the indecisive attitude of the United States. The basis of the problem of Red China is that India believes that the Chinese Communists should represent the Chinese people in the United Nations, while the United States still clings to the Taiwan Government.

The positive side of Indian - American relations has been the result of the continued United States aid and Communist blunders such as the suppression of the Hungarian revolt by the Union of Soviet Socialist Republics (U.S.S.R.), and the border dispute with Red China. As can be seen, the removal of United States aid to India would make Indian - American relations largely dependent on Communist moves.

¹United States Department of State. The Communist Economic Threat (Washington: Government Printing Office, 1954) p. 6.

CHAPTER VI

SOVIET AID

Frustrated in their reliance upon force and direct subversion to expand their influence over other countries, Soviet leaders began to place new emphasis on the economic approach in the latter months of 1953. Until that time the Soviet policy in regard to aiding the underdeveloped countries had been to criticize the United States aid program and to accuse the United States of trying to dominate other countries.

I. MOTIVES

Just as the United States' prime motivation in aiding underdeveloped countries is deterring the expansion of communism, so Russia's motivation is primarily the expansion of the geographical area of communism. The specific goals of Russia in aiding such underdeveloped countries as India seem to be: (1) the gaining of influence and good will in these countries, (2) encouraging positive neutralism, (3) lessening Western influence, (4) promoting free world tensions, and (5) undermining free world alliances.¹

¹United States Department of State, The Communist Economic Threat (Washington: Government Printing Office, 1959), p. 6.

The economic motivation behind Russia's aid program, although slight in comparison with her political aspirations, is nevertheless significant. The result of Russia's increased economic motivation has been the advocacy of more trading by other countries with her. This trade is advantageous to Russia in that it helps to feed her growing population and also supplies her growing industry with needed materials. The fact that Soviet aid is not without economic concern seems to be proven by such agreements as the one she has with India in which the Soviet credit arrangement pegs the rupee to gold.¹

There is also evidence of the use of Soviet psychology in her aid program. For example, in India Soviet aid has emphasized industry, which is long lasting, imposing and tangible. This is in contrast to the United States' program which emphasizes foodstuffs and raw materials, which quickly lose their identity. Certainly good health and improved agricultural techniques are not as tangible as steel.

Whatever the other motivations might be, there is little doubt that Russia's prime motivation is political. Nikita Khrushchev once said, "We value trade least for economic reasons and most for political purposes."² The

¹Michael Sapor, The New Role of the Soviets in the World Economy (New York: The Committee for Economic Development, 1958), p. 15.

²United States Department of State, The Communist Economic Threat, op. cit., p. 2.
 Fredrick A. Freager, 1958, p. 6.

characteristics of Soviet economic transactions with underdeveloped countries suggests that these are not straight business agreements. The length of payment, the interest charges, and quantities and types of goods suggest that the motivations are not entirely economic.

The political motivation also seems to be confirmed by the geographical character of Soviet investments, which have emphasized trouble spots such as Syria, India, Burma, and Egypt.

Why then, if Russia's motives seem so evident, do the underdeveloped countries continue to accept Soviet aid? Some reasons are: (1) the fact that Russia is partially Asian which provides a community factor, (2) Russia's anti-colonial history, (3) the fact that Russia has no merchants who have been objects of contempt in the underdeveloped countries, (4) Russia's model of quick development, and (5) the form of Russian aid which is characterized by quick action, low interest rates, long repayment periods, no strings attached, and buying what the underdeveloped countries wish to sell.¹

There is considerable evidence that the underdeveloped countries believe such speeches as the one given by the Russian delegate to the Afro-Asian Peoples Solidarity Conference in Cairo when he said,

We do not seek to get any advantages. . . . We are ready to help you as brother helps brother,

¹ Joseph Berliner, Soviet Economic Aid (New York: Fredrick A. Praeger, 1958), p. 6.

without any interest whatever, for we know from our own experience how difficult it is to get rid of need.¹

II. CHARACTERISTICS OF THE SOVIET

ECONOMIC OFFENSIVE

Since the opening of the Soviet economic offensive in 1953, programs developed by that country have involved three different kinds of economic transactions. First, the Soviets emphasized increased trade, and then offered economic and technical assistance to such underdeveloped countries as India.

Trade. Russian trade with India has never been of any great significance. For the three years preceding the Soviet economic offensive the trade between India and Russia amounted to only about 1 per cent of India's total trade with other countries.²

Russian attempts to trade with India were at first unsuccessful, but as the needs of India's First Five Year Plan became evident, and the Soviet offers became more attractive, these two countries signed a five year bilateral trade agreement in December of 1953.³

¹United States Department of State, Bulletin No. 38 (Washington: Government Printing Office, May 5, 1955), p. 733.

²The New York Times, January 19, 1952, p. 28.

³Ibid., January 5, 1954, p. 47.

⁴Ibid., Bulletin No. 40, Feb. 2, 1955, p. 500.

TABLE III
COMPARATIVE DEPENDENCE OF INDIA ON TRADE WITH THE
SOVIET BLOC AND THE UNITED STATES, 1956*

Per Cent of Exports		
Soviet Bloc	United States	Leading Nation
3.8 per cent	15 per cent	31.1 per cent (United Kingdom)

Per Cent of Imports		
Soviet Bloc	United States	Leading Nation
4.5 per cent	11.2 per cent	26.3 per cent (United Kingdom)

*Source: Michael Sapir, The New Role of the Soviets in the World Economy (New York: Committee for Economic Development, April, 1958), p. 13.

Although Soviet trade gains have not reached any great proportions, her efforts in that direction have not been without success. Russia had forty-nine trade agreements with various countries in 1953. At the end of 1957 she had 145 such agreements with twenty-eight countries, and by 1959 she had 173 trade agreements with thirty-one countries.¹ Trade with the underdeveloped countries has tripled since 1954, rising from a total of \$800 million at that time to over \$2 billion in 1958.²

¹United States Department of State, Bulletin No. 40, (Washington: Government Printing Office, February 9, 1960), p. 207.

²Ibid., Bulletin No. 42, May 2, 1960, p. 680.

Loans. While the United States aid program has emphasized both loans and grants, the Russian program has relied almost entirely on loans. The Soviet loans have had two particularly attractive features to such countries as India, low interest rates and partial repayment in goods. The typical interest rate for a Soviet loan has been 2 to 2½ per cent. In comparison, the International Bank for Reconstruction and Development and the Export - Import Bank charge interest rates varying from 4½ per cent to 6 per cent.

The other attractive feature of Soviet loans is the fact that they can be repaid partially, or possibly fully, in goods rather than in convertible currency.¹ The United States has never accepted goods in repayment.

Technical assistance. Soviet technical assistance to underdeveloped countries has been increasing, particularly in the past two years. For example, in the last six months of 1958 there were four thousand Soviet technicians in seventeen countries. This was an increase of 1,200 in the space of one year and compares with a total of 4,600 United States technicians in the same area.² The total number of Soviet technicians in underdeveloped countries is now about five thousand;

¹Sapir, op. cit., p. 25.

²United States Department of State, Bulletin No. 40 (Washington: Government Printing Office, February 9, 1960), p. 207.

while four thousand technicians from these countries have been trained in Russia in the past four years.¹ Typical of how Soviet technical assistance works in India is the Soviet financed steel mill at Bhilai, India. Under this agreement India will send seven hundred workers, engineers, and technicians to Russia for training. Russia will in turn keep several hundred technicians at the Bhilai mill for a period of twelve years.²

Soviet projects in India. The Russian financing of the steel mill at Bhilai, India, was the first large direct investment by Russia in the industrial economy of India. This project was started in 1955 and called for a Soviet credit of \$115 million. Also, seven hundred Indian technicians were trained in Russia under this agreement.³

In November of 1956 the Soviets extended a credit of \$126 million to India for a heavy machine building plant, a plant for manufacturing of coal mining machinery, an optical glass factory, and a 250,000 kilowatt capacity thermal power station. These projects started in 1959, and are to be repaid at 2½ per cent interest in twelve annual installments of \$126,000,000. These projects also call for the training

¹ Ibid., Bulletin No. 42, May 2, 1960, p. 680.

² Berliner, op. cit., p. 45.

³ Sapir, op. cit., p. 17.

of Indian technicians in Russia.¹

Although the above two agreements are by far the largest between India and Russia, there have been many smaller projects undertaken in India through Soviet credits. Some examples are: (1) In June of 1956 Russia shipped twenty coal mining rigs valued at \$450,000 to India; (2) Later in 1956 Russia delivered to India a \$3,600,000 oil drilling rig; (3) Russia is now furnishing laboratory equipment and technical personnel as professors and translators for a technical institute at Bombay; and (4) the Soviets have supplied over six hundred items of agricultural equipment to develop a three thousand acre mechanized farm near Rajasthan.²

Indicative of what the future holds for Indian - Soviet economic relations is the Indian acceptance of a Soviet ruble credit of \$378,000,000 to help finance India's Third Five Year Plan which starts in 1961.³

III. SOVIET - INDIAN RELATIONS

Until 1953 Soviet tactics in regard to United States aid amounted to denouncing the United States as trying to dominate India. India repeatedly protested such public criticism of the United States aid program. Thus, Indian - Soviet relations were not considered amicable for that period.

¹The New York Times, November 10, 1957, p. 12.

²Ibid., January 15, 1958, p. 4.

³Ibid., July 30, 1959, p. 5.

In 1953 Russia's attitude changed from outside criticism to direct participation in Indian economic development. As contacts between these two countries increased, so did the closeness of their relations. There are several reasons for this, the predominant one being a mutual desire by India and Russia to decrease Western influence in Asia. Also, India looked upon Russia favorably because of the impression Russia had made of a simple people pulling themselves up by the bootstraps with little foreign assistance, and also the identification of the Russian Revolution with anti-colonialism.¹ In 1955, Russia and India signed Nehru's Five Principles, which called for territorial integrity and respect of sovereignty, non-aggression, non-interference in internal affairs, mutual benefits, and peaceful coexistence.²

The Russian suppression of Hungary marked a changed Indian attitude towards Russia. Although becoming more suspicious of Russian motives, India continued, for economic reasons, to be in close contact with Russia on financial matters. On February 17, 1960, a joint communique by India and Russia announced that relations between the two countries were at an all time high.³

¹Bowles, Ambassador's Report, op. cit., p. 216.

²Jawaharalal Nehru, "Indian - Soviet Relations," Vital Speeches, XXI (June 21, 1955), 1356.

³The New York Times, February 17, 1960, p. 1.

CHAPTER VII

SUMMARY, SUGGESTIONS AND CONCLUSIONS

There is a great need for improvement in the administering of United States aid to India. This final chapter will offer a summary on the problem examined in this thesis, and suggestions and conclusions on how the United States aid program can be made more effective in India.

I. SUMMARY

Since 1953 the United States and Russia have engaged in aid competition in India. This thesis examined the relationship of India, Russia, and the United States to each other as each sought an objective in aiding the Indian economy. India's purpose in developing her economy, as was shown, is to improve the living standards of her huge population, while maintaining a policy of neutrality in the "cold war." Russia's main purpose in aiding the development of the India economy has been to spread communism, with also a few economic motivations of a lesser nature. The United States has been motivated to aid India for two reasons. First, the United States believes this is an active way to stop the spread of communism, and secondly, the United States wishes to see a fellow democratic country raise its standard of living.

With the above relationships between India, the United States and Russia in mind, this study sought ways through the comparison of United States and Soviet aid to India in which economic and political cooperation between the United States and India could be made more effective in stopping the spread of communism, while also assisting the development of the Indian economy.

In order to give the proper setting for the Soviet - American aid struggle it was necessary to show a few of India's basic economic problems since an effective aid program must have a direct connection to these problems. Then, India's efforts to develop her economy through the First Five Year Plan, and the Second Five Year Plan were examined. This served the purpose of showing that United States aid to India is not being wasted, that the United States can coordinate a program for the development of India with that country, and that India is striving to make her economic situation less amenable to communism.

The administration, motives, and nature of United States aid was then examined for the purpose of giving a general background to United States efforts to thwart communism and to aid the development of underdeveloped countries. Then this examination of the United States aid program was applied to India as the various efforts of the United States to aid India were reviewed, and the success of these efforts in strengthening

United States - Indian relations was scrutinized.

The Soviet aid program in India was examined for three reasons: (1) to show the purposes for which Russia aids India, and the tactics she uses to further her motivations in that country, (2) to show the areas in which the Soviet aid to India has been effective so that the United States can learn by its mistakes, and (3) to show what effect Russian aid to India has had in strengthening Soviet - Indian relations.

With the purposes and main body of this thesis summarized, the suggestions and conclusions based upon them follow.

II. THE ADMINISTRATION OF UNITED STATES AID

Increased aid to India. The United States should not only continue to aid India's development, but should increase its financial support to India. Aid to India is often criticized as money wasted, and an excessive gamble since the United States has no assurance that India will not become Communist. However, not giving aid to India is a greater gamble, and the latter gamble is one that the United States cannot afford.

Although United States aid to India is expensive, so is war. The Korean War cost forty times as much as aid to pre-Communist China.¹ Today the West invests \$100 billion per year

¹The New York Times, September 20, 1953, VI, p. 9.

in defense. One per cent of that sum would increase the mechanization of India 100 per cent.¹ Even the economy-minded can be comforted by the fact that 75 per cent of United States aid funds are spent in the United States.²

Better coordination. At the present, the United States administers aid to underdeveloped countries such as India through several agencies; the International Cooperation Administration, the Export-Import Bank, and the Development Loan Fund are examples. Although cooperation among these agencies has been good, it has been difficult to keep from duplicating effort.

The United States can profit from the experiences of the United Nations in this respect. The Technical Assistance Board of the United Nations has been very effective in coordinating development assistance through the various United Nations agencies. A duplication of the United Nations Technical Assistance Board by the United States would increase the coordination of her aid programs.

Concentrating aid in India. In the past, the United States program has been spread over such a large area that Russia, by concentrating her aid in a few key countries, has

¹Ibid.

²United States Congress, Senate, Committee on Foreign Relations, Hearings, The Mutual Security Act of 1958, 85th Congress, 2nd Session (Washington: Government Printing Office, 1958), p. 656.

been able to make a substantial impact. By concentrating aid in India, the largest free nation in the world, the United States would be making a showcase of the democratic methods of development, which might have a better effect than dispersion of aid over great areas. It is unfortunate that the United States does not have the means to assist all underdeveloped countries to the same degree, but the fact remains that a democratic India is indispensable to the future of the United States. The United States must therefore concentrate more aid in that country.¹

Increased continuity. The fact that the United States aid program is dependent upon annual appropriations has been a constant problem in the effective administration of aid. India's five year development programs have been partially dependent upon United States assistance, and has thus been hampered in making plans for the future, when she has no assurance of the amount of United States aid. As far back as 1955, before the Khrushchev-Bulganin visit to India, Indian leaders intimated that they would like to know what they could expect from the United States before talking with the two Russian leaders.²

¹ There has been evidence of such a concentration in recent months. On March 24, 1960, The New York Times reported that James P. Riddleberger, head of the International Cooperation Administration, had announced a new policy of concentrating aid in Pakistan, Taiwan, and India.

² The New York Times, November 17, 1955, p. 1.

It is not entirely necessary that the United States make a commitment to India of a certain specified sum for a stated number of years. A mere declaration of intention such as the Marshall Plan would give the United States aid program in India a continuity which it now lacks. There seems to be no good reason why the United States has not made such a declaration, since it has obviously emphasized aid to India.¹

Loans rather than grants. Nehru has emphasized the fact that India desires loans rather than grants.² The United States can help both herself and India by fulfilling Nehru's wishes.

Grants too often have the "rich nation gives dole to poor nation" stigma. In a country with sensitive national pride, such as India, such a stigma is of great significance. On the other hand, loans are made by one businessman to another. This is the position which India wishes to assume.

Emphasizing loans would increase the amounts of aid which the United States would be able to give. As one loan was repaid, the United States could re-loan the money again.

Loans with annual payments maintain a connection between countries which grants cannot attain. This lends a

¹The May 4, 1960, Public Law 480 agreement between the United States and India which is mentioned on page 29 is encouraging in that it calls for the agreement to take place over a four year period.

²The New York Times, December 20, 1956, p. 4.

continuity to the United States program which is badly needed.

Loans have a certain psychological advantage, in that they may be effective in creating favorable relations a number of times. For example, the recipient is grateful when the loan is received; he is grateful again when the loan is extended if he cannot make the payments, and so on.

Encouragement of private investment. The United States should encourage more private investment in India. India has repeatedly expressed a desire for United States private investment, but as shown in Chapter V, it continues to be only a small amount of the total private investment in India.

Since the Soviets have nothing in the way of private investment, the United States faces little competition in this area. Therefore, any increase in private investment in India would be a net gain in the competition with the Soviets.

Russia's economic strength is in her government. United States economic strength is in private enterprise. Thus, the latter is in competition in India whether it is realized or not. The United States should make its businessmen aware of what is at stake in India, and encourage them to increase their investments in that country.¹

¹For two encouraging agreements, supra., p. 37.

²1943. December 16, 1943, p. 1.

Speed and flexibility. The United States aid program needs more speed and flexibility. As previously shown, India's development plans have an urgency, which the United States must match in speed of operation. India was much impressed by the fact that equipment for the Russian financed farm near Rajasthan arrived within two months after signing of the agreement.¹ On the other hand, Indian newspapers were critical of the slowness with which the Point Four Program was implemented.²

The United States could improve the speed and flexibility of its aid program if it would create a reserve fund for that purpose. Waiting for next year's appropriations is not a suitable solution to an underdeveloped country's urgent needs.

The imaginative aspect. The United States must be more imaginative in its aid competition with Russia. Khrushchev has expressed a desire to compete with capitalist countries, viz., the United States. The United States should propose that this competition take place in the field of aid to underdeveloped countries. The proposal itself would be of great prestige value to the United States; the underdeveloped countries would prosper; and Russia's economy would be truly tested. The United States would thus

¹The New York Times, March 7, 1956, p. 6.

²Ibid., December 16, 1949, p. 10.

press a twofold problem upon the Soviets, for she would have to maintain aid to the Soviet Bloc to retain its solidarity, and would have to aid underdeveloped countries outside of the Soviet Bloc in order to effectively compete with the United States.

Aid in the form of capital improvements has a lasting impression because of identity, replacement of parts, et cetera, while foodstuffs quickly disappear. Therefore, the United States should channel its food aid as much as possible through an international agency such as the United Nations, while giving the capital improvements directly. Such an action would have the advantages of both unselfish motivation and the securing of a lasting impression.

When competing with Russia in economic aid, the United States must do so under her own carefully prepared plan, and not necessarily try to match or surpass Soviet aid. In other words, the United States should be on the offensive as much as possible, and not on the defensive.

III. UNITED STATES ATTITUDES AND MOTIVES

United States attitude. If the United States is to administer an effective aid program, it must be attuned to the dominant aspirations of the recipient country. Therefore, her attitude towards these aspirations is very significant.

The Congress Party, which has been in power in India

since her independence, announced the four cardinal tenets of her foreign policy as far back as 1925. They are: (1) opposition to imperialism and colonial rule, (2) support of subject peoples and oppressed races in their aspirations for freedom and equality, (3) promotion of peace and abhorrence of war, and (4) avoidance of foreign entanglements.¹ United States aid policies in India must reflect an attitude based on a careful diagnosis of the above principles; for example, a respect for India's neutralism, and for the cautiousness on her part in dealing with the West.

India is not pro-Communist, but is pro-Asia. The United States must realize that, as stopping the expansion of communism promotes its cause, so promoting Asia helps India's cause. This does not necessarily make India's interests contrary to those of the United States, nor does it make them the same. The United States must realize that a country not 100 per cent aligned with her is not 100 per cent pro-Soviet. Russian and American interests are not the only ones in the world; India has her own interests as well.

The United States must not be apathetic to India's plans for development. Many American point four technicians are immediately discouraged when they see the task of raising India's standard of living to that of the United States. Indians, however, do not measure their present standard of living against that of the United States, but against that

¹Trumball, op. cit., p. 220.

which they have previously experienced. Progress which would seem slow to Americans could seem rapid to the Indian people. Therefore the United States attitude must be constant in that respect, and never one of discouragement. The United States must implement positive attitudes rather than negative ones. In other words the United States attitude should be pro-peace, and not anti-Soviet.

Motives. The United States aid program has been dominated by security motives. The United States aid to India would be much more effective if it were based on a loftier, more permanent, and more fundamental purpose than national security. It seems that a more idealistically innovated program would appeal to the Indian people. In India, where the voluntary giving of land under the Bhoodan Yugna movement had reached 1,900,000 acres by 1955,¹ it seems there is plenty of room for idealistic motives.

IV. SHIFTS IN EMPHASIS

The United Nations. In comparison to the total amount of aid given to underdeveloped countries by the United States, very little of that amount has been channeled through agencies of the United Nations. In the period from July 1, 1945 to June 30, 1958, the United States gave a total of \$71.5 billion

¹Finegan, op. cit., p. 114.

in direct aid, while giving only \$1.4 billion through the United Nations.¹

Soviet - American competition in aiding underdeveloped countries has had inconclusive results. On the other hand, the United States has far outdistanced Russia in aid administered through the United Nations. Therefore, a shift of emphasis to the United Nations would shift attention to the area where the United States is winning in its competition with Russia.

Russia has not been nearly as active in the United Nations development programs as the United States. For example, for several years after its inception, Russia did not contribute a single ruble to the United Nations Expanded Program of Technical Assistance, or to the United Nations Children's Fund. The Soviets rejected membership in such United Nations agencies as the International Bank for Reconstruction and Development, the International Monetary Fund, the Food and Agricultural Organization, the International Labor Organization, and the United Nations Educational, Scientific, and Cultural Organization. In 1949 Russia withdrew from the World Health Organization. Since 1953 Russia has rejoined some of these agencies, but the fact remains that the United States has been the main support for the United Nations assistance programs.

¹United States Congressional Record, 86th Cong., 1st Sess., 1959, CV, Part 19, A-828.

In switching increased emphasis by the United States to the United Nations in administering an aid program, there seems to be no immediate possibility of Russian subversion through the United Nations agencies. In 1958, for example, only 1.6 per cent of the technical assistance experts utilized by the United Nations were Soviet citizens. The United States, the United Kingdom, France, and the Netherlands furnished 1,066 of the total of 2,427 compared with only forty Russians.¹ Since it is up to the country requesting assistance from the United Nations to choose its sources of such assistance, it is not possible for Russia to force her way into these programs. Also it is doubtful that such countries as India, which have a Western heritage in technology, will wish to switch to Soviet practices.

A shift to the United Nations would bare her motives as humanitarian, and not self-centered. Nehru once said, "The United Nations is based on a constitution of a highly principled character, its aim is a peaceful cooperation of peoples."² Surely Nehru would be less suspect of United States motives, if it were to administer a larger portion of its aid through the United Nations.

If the United States were to shift a larger portion of its aid program to the United Nations, it would become

¹The New York Times, October 23, 1959, p. 2.

²Nehru, Vital Speeches, XXI (July 15, 1955), 1357.

multilateral in character, rather than bilateral. Multilateral aid has many advantages over bilateral aid. Some examples are:

1. Other countries would contribute with the United States. The probable results of such cooperation would be to increase the amounts available to the underdeveloped countries, while decreasing the expense to the United States.
2. Experts could be recruited from all over the world. The United States by no means has the best experts in all fields. In fact, the United States standard of living is so far advanced over such countries as India, that many times United States experts are frustrated in their attempts to assist the underdeveloped countries. On the other hand, experts from Japan and Indonesia who share the same problems as India are many times able to produce positive results in the same situation. A case in point is the suggestion by an Indonesian expert that India double crop her rice paddies, viz., raise fish in the water of the paddies while the rice is growing. Although this practice dated back many years in Indonesia, it was unknown to either Indians or Americans.
3. The United Nations programs are much better isolated from political manipulation than either the United

States or Russian programs. Thus the needs of the recipient can be given greater preference India over the motives of the donor. United Nations to

4. The prestige of the recipient is less involved. period India, for example, may be receiving assistance from the United Nations, but at the same time, so will many other nations. sent to India.

5. The United Nations programs give recipients a feeling of participation. For example, India would not only receive assistance, but would be expected to contribute experts and money to the program also. The feeling of participation helps the under-developed country to preserve its self esteem, so vital to the development of a country. sent to India

6. Multilateral aid can be effective in contributing to peace. Presently the United States, the United Kingdom, Australia, Canada, West Germany, and New Zealand are contributing to the International Bank for Reconstruction and Development a sum of nearly one billion dollars to finance the development of the Indus River Basis. Water troubles which have

continually caused conflict between India and the United States Pakistan now will be concluded satisfactorily for aid for both countries. sent to India

7. Multilateral aid as utilized by the United Nations is Development effective and well coordinated. The following

example reflects this fact. Malaria has been a continual health problem in India. In 1950, India requested assistance from the United Nations to help in alleviating this problem. During the period of 1950 to 1952, blueprints were drawn by the World Health Organization for dichlorodiphenyltrichloroethane (D.D.T.) and penicillin plants in India. Meanwhile, the United Nations International Children's Emergency Fund provided one million dollars worth of equipment. In 1953, the United Nations Technical Assistance Administration took responsibility for the technical assistance for India's malaria control. Experts from England, Canada, Belgium, France, and Italy were then sent to India to study the problem and to help build plants needed to supply required chemicals. The D.D.T. and penicillin plants were opened in 1956. These factories now produce three thousand tons per year and supply nearly all of India's needs for these products, at a cost 25 per cent less than present import costs.

There has been a trend in the past few months by the United States in putting more emphasis on multilateral type aid. For example, the United States and sixty-seven other nations of the International Bank for Reconstruction and Development and the International Monetary Fund have recently

approved the establishment of a new lending agency, the International Development Authority. This new agency will have a capital of one billion dollars to start, with the United States contributing \$300 million of that amount over the next five years.¹

Military aid. The emphasis of the United States aid program is still mired in the Korean War situation which emphasized military needs.² Soviet strategy and tactics have now shifted away from military competition to economic competition. Therefore, the United States is fighting a foe not present with more aid than the one that is present. Aid is an active force against communism, while military power is only a defense.

India is as vital a battleground as Korea. Korea tested Communist military intervention, while India is a test of Soviet economic intervention. The United States must fight with dollars, which are a small price in any terms of value as compared with human lives. This is the type of competition which the United States should prefer and one in which she can not afford to lose.

¹Ibid., October 1, 1959, p. 10.

²The President's Mutual Security Budget for fiscal year 1961 calls for almost 75 per cent to be spent for military purposes. United States Department of State, Bulletin No. 42 (Washington: Government Printing Office, March 28, 1960), p. 499.

Technical aid. Technical assistance helps others to help themselves. Ultimately India will have to be self-reliant. Therefore, the United States must emphasize the education of modern technology in India.

There is no doubt of the need in India of technical assistance. An Indian farmer, for example, produces only one-half as much wheat per acre as the American farmer and only one-fifth as much cotton.¹

The Indian people wish to produce their own needs in wheat, cotton, et cetera, and not have to rely on foreign shipments. At the present, Indian farmers' methods are so antiquated that there is room for immediate progress through teaching them more modern methods. As they learn these methods, modern machinery will be of more assistance to them. The change from these ancient methods to modern machines seems to be too great without an intervening technical education process.

V. INDIAN - AMERICAN RELATIONS

Aid as a determinant. Political factors have been the main determinant of the amicability of Indian - American relations, not aid. Unfortunately, it has usually been negative actions by Communist countries rather than positive actions by the United States which have improved Indian - American

¹Roosevelt, op. cit., p. 120.

relations. Examples are: the suppression of the Hungarian revolt by Russia, and China's menacing tactics on the Indian border. On the deficit side have been the United States military assistance to Pakistan, the landing of United States troops in Lebanon, the racial situation in the United States, and the indifference to European colonialism as shown by the United States. Therefore, if the United States aid program is to be effective in India, the United States must take into account factors other than economic ones.

Indian suspiciousness. The United States must make an accurate diagnosis of Indian feelings.

India has been reluctant to ask for aid from the United States. Almost always, it has been the United States who initiated the negotiations which have led to aid agreements with India. India recognizes its needs, but also wishes to maintain its national integrity. The United States must understand that fact, if it is to aid India effectively.

India has continually been suspicious of United States motives in aiding her. How well India remembers that it was the establishment of a few harmless trading posts by the British East India Company that led to years of British domination. With such a long history of being dominated by a foreign country, the United States should understand India's feelings in that respect. Fortunately, time has proven that the United States does not wish to dominate India, and India is thus growing less suspicious.

India and Pakistan. Unfortunately the United States has been in the middle of the constant conflict between India and Pakistan. The United States has given both military and economic aid to Pakistan, while India, by its request, receives only economic assistance. The result has been that the United States has been, in effect, arming both countries against each other. For example, the United States gives military aid to Pakistan. India interprets this as an increased threat, and thus devotes more of its budget to defense. This India is able to do partially because of United States economic assistance. Thus, both India and Pakistan have been at odds with the United States from time to time.

One thing is certain; the United States can not afford to choose between India and Pakistan, for she does not wish to lose either a friend or an ally. Neither Pakistan, nor India has a right to complain of economic aid being given to the other. The problem lies in the United States military aid to Pakistan. Therefore, the United States should channel this aid through the regional defense alliance of which the United States and Pakistan are both members, the South East Asia Treaty Organization.

VI. SOVIET AID

Disadvantages. The United States must realize that in competing with Russia in economic aid, Russia has many distinct advantages.

The United States can not hope to match the quickness of action of a dictatorship, the machinery of democracy is just too slow. Also, Russia has consumptive markets with which it can greatly increase trade. The United States is at a disadvantage once again, since foreign trade plays such a small part in its economy. Furthermore, if Russia's aid to India fails, India still has the alternative of communism, while if India fails to improve its economy through democratic means there is no alternative for the United States. If the United States is to maintain a realistic aid program, it must keep these inherent disadvantages in mind, and do everything possible to minimize them.

United States interference. The United States need not interfere with Russian aid to India.

In the long run it would seem to Russia's advantage to see India's economy collapse. Therefore, the United States need not interfere with Russian aid to India, for either Russia will help India's development, or will back out and thus lose prestige. Of course, there is the possibility that Russian aid might become such an integral part of the Indian economy that the threat of withdrawal would be a potent weapon. However, there seems to be very little likelihood of such an occurrence as shown in statistics of previous chapters.

Communism in India. Communism in India does not seem to be gaining.

The real test of success of either the Soviet or the American aid program in India is whether communism has increased in that country.

On April 20, 1952, The New York Times reported that leading Indian officials believed that the next five years would tell if India was going Communist or not. It did not. The same newspaper reported on December 17, 1952, that the Communist Party had a 50-50 chance to gain control in the next election. It did not.

The only notable success of the Communist Party in gaining political power in India was in the State of Kerala, where it took control in 1957. Actually, this was not so much a show of popular support, but of factionalism among other parties, for the Communists polled less than 35 per cent of the votes. The Indian Central Government removed the Communist Party from power in Kerala in July of 1959. The elections held in February of 1960 resulted in the election of a three party coalition which controls eighty-nine seats in the Kerala Parliament as opposed to twenty-eight seats for the Communists.¹

Although communism remains a constant threat to India, the likelihood that they will gain power remains remote.

¹The New York Times, February 3, 1960, p. 6.

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